COMPANY UPDATE

Dialog Group (DLG MK)

LNG-ASU Plant A Non-market Event But A Prelude To More Catalysts Ahead

The co-investment in Malaysia's first LNG-driven ASU plant in Pengerang is minor in terms of earnings/SOTP accretion by our estimate. Hence, assuming markets do not confuse it with the far larger PLNG2, it is likely a non-market reaction event. However, it is a prelude to more catalysts ahead, as long as Dialog remains as a key beneficiary of the Pengerang theme. Meanwhile, we understand the renewable storage of DTL3 is on track for startup. Maintain BUY. Target: RM3.00.

WHAT'S NEW

- **Launch of Malaysia's first LNG-ASU plant.** Petronas Gas (PGAS), a 51%-owned subsidiary of Petronas, has secured a Final Investment Decision (FID) for a Liquefied Natural Gas (LNG)-driven Air Separation Unit (ASU) plant in Pengerang, Johor. The ASU will have a combined capacity of 612 tonnes per day (TPD), and marks a major technological advancement in sustainable energy, with a target to reduce electricity consumption by 25% and carbon emissions by 15,000 tonnes annually vs the traditional ASU plants. The awarded EPCC cost is RM368m, and targeted commercial operation date (COD) is Nov 26.
- **Dialog will partake of a 27.8% stake in this new associate project.** A shareholders agreement was already signed with Dialog's newly set-up subsidiary, Dialog Equity (Three), and Dialog is expected to own 28% of the project (PGAS: 72%) upon completion. We understand that Dialog will not execute the EPCC of the plant, as this is not within its expertise. Dialog's portion of the EPCC cost is RM102m (at 28% stake). It is expected to invest RM37m in the equity portion of project, based on a debt/equity ratio of 70/30. This implies the total capex (including other costs) is RM443m.
- **Design, Build, and Lease (DBL) model.** The ASU will be leased to a gas operator, which will be in charge of maintenance and marketing for a 25-year period. ASU's shareholders will be paid through fixed monthly facility charges by the operator.
- **A separate project from Pengerang (LNG) Two (PLNG2).** To avoid investor confusion, the ASU is under PGAS' subsidiary, Regas Terminal (Pengerang) (RGTPSB), that was set up in 2011 and has been dormant since, This is entirely separate from Regasification Terminal (Pengerang) (RGTP) that is part of PLNG2, an associate company with stakes of 65%/25%/10% split between Petronas, Dialog, and the Johor State respectively. The RM2.7b PLNG2's RGTP commenced commercial operations on Nov 17 (after receiving three LNG cargoes in Sep-Oct 17 for commissioning purposes), and comprises a LNG regasification capacity of 3.5MTPA, with two units of 200,000 cbm LNG storage tanks. Henceforth, this deal is actually a new strategic collaboration between Dialog and PGAS (following after PLNG2), and is deemed a non-related party transaction.

KEY FINANCIALS

Year to 30 Jun (RMm)	2023	2024	2025F	2026F	2027F
Net turnover	3,002	3,152	2,840	2,884	2,998
EBITDA	506	788	807	859	878
Operating profit	251	455	363	386	376
Net profit (rep./act.)	511	580	610	640	685
Net profit (adj.)	499	595	610	640	685
EPS (sen)	7.9	9.5	13.2	11.7	10.7
PE (x)	27.8	24.0	28.4	30.3	32.0
P/B (x)	2.58	2.5	2.3	2.1	2.1
EV/EBITDA (x)	29.1	18.7	18.3	17.2	16.8
Dividend yield (%)	1.5	1.5	2.0	2.1	2.2
Net margin (%)	17.0	18.4	22.3	23.0	23.6
Net debt/(cash) to equity (%)	7.9	2.2	5.2	3.8	1.5
Interest cover (x)	7.0	12.2	13.2	11.7	10.7
ROE (%)	9.6	10.1	11.1	10.9	10.9
Consensus net profit	-	-	655	685	723
UOBKH/Consensus (x)	-	-	0.93	0.93	0.94

Source: Dialog Group Bhd, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.90
Target Price	RM3.00
Upside	+57.9%

COMPANY DESCRIPTION

Dialog provides engineering, procurement, construction and commissioning (EPCC) services and plant maintenance services. The company also owns tank terminals that store oil and gas while marketing specialty chemicals and equipment.

STOCK DATA

GICS sector	Energy
Bloomberg ticker:	DLG MK
Shares issued (m):	5,642.6
Market cap (RMm):	10,721.0
Market cap (US$m):	2,613.0
3-mth avg daily t'over (US$m):	4.0

Price Performance (%)

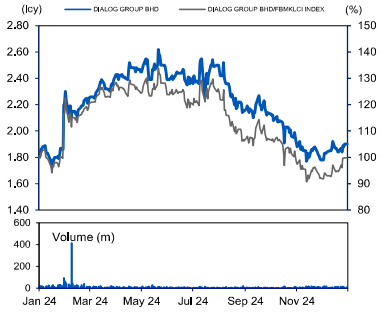
52-week high/low RM2.64RM1.72

1mth	3mth	6mth	1yr	YTD
3.3	(10.2)	(21.2)	(3.6)	2.7

Major Shareholders	%
Ngau Boon Keat	18.3
EPF	16.2
Azam Utama	7.6

FY25 NAV/Share (RM)	1.00
FY25 Net Debt/Share (RM)	0.05

PRICE CHART



Source: Bloomberg

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- **Minor earnings accretion...** Similar to the PLNG2, the ASU will be classified as an associate project. Based on our estimates, the ASU is expected to contribute to Dialog's share of earnings of RM5m-10m p.a, which is negligible at about 1% relative to its group earnings base, and only 10% of the size of PLNG2's earnings contribution to Dialog. However, we think the ASU provides other benefits to Dialog. An example is the positive emission reduction value enhancement to the group's ESG goals

- **...but benefits from much stronger take-or-pay terms.** Although both projects are structured as take-or-pay, Dialog was the EPCC contractor for PLNG2, which meant that as the contractor, Dialog was exposed to delay risks for the project. Also, PLNG2's historical earnings range had been volatile, ranging from RM47m (FY18) to RM86m (FY22), but the lowest earnings was only RM16m in FY20. This was partly because PLNG2's annual revenue requirement fluctuates according to changes in the regasification tariff under the Incentive-Based Regulation framework. Hence, especially given that Dialog's earnings were adversely impacted by EPCC risks in the post-pandemic era, we can observe that Dialog had been walking the talk ie negotiating for new projects at more resilient terms in today's operating environment.

- **Prelude to expansion of LNG terminals?** The ASU is negligible to our SOTP accretion. But the timing for PGAS to sanction this new technology, alongside developments in the Pengerang Integrated Complex and the Johor-Singapore Special Economic Zone, could be a hint at more LNG projects to come. This will open doors for further expansion of Dialog's PLNG2. Not too long ago, an expression of interest for PLNG2's third LNG storage tank was studied.

- Our channel checks suggest various parties are already engaged in feasibility studies (pre-FEED) for a new LNG terminal in Malaysia in 1Q25. We guesstimate it is likely spearheaded by Aramco in Pengerang, as Aramco has ambitions to take control of the global LNG market, after becoming a new LNG player upon acquiring US-listed MidOcean in 2023. In 2024, Aramco indirectly gained access to Australia's LNG facilities via MidOcean. Also, Peninsular Malaysia desperately needs more LNG terminals.

- **Other developments.** We understand that Dialog's made its first foray into renewable storage with Terminal Langsat 3 (DTL3); it has a capacity of 24,000 cbm, and had completed construction in the targeted 4Q24 as per its announcement in 2023. The terminal is now undergoing commission for 2QFY25 commercialisation.

EARNINGS REVISION/ RISK

- **Retain forecasts.** The new ASU is not expected to impact near-term earnings, and is negligible to group earnings at this juncture.

STOCK VALUATION/ RECOMMENDATION

- **Maintain BUY and target price of RM3.00 pegged to FY25 valuations.** The ASU is expected to be a non-market reaction event (assuming markets do not confuse it with the larger PLNG2). However, investors can look forward to greater potential for new projects to come (as highlighted above). We still stick to our view that earnings recovery will be driven by multiple fronts and not only from storage projects. At the same time, Dialog can shift its resources to work on several internal EPCC jobs, and avoid committing to high-risk EPCC projects. We do not assign any valuation to Dialog's non-O&G ventures, but we see that share price is attractive on a risk-reward basis, as earnings downside risk is limited, and yet its potential catalyst riding on the Johor-Singapore economic wave is not fully priced in (via our RM0.50 estimate for Pengerang Phase 3 storage).

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

• **Environmental**
- **Carbon (CO2) emission.** Scope 1 and 2 emissions are higher at 17,326 tCO2e in FY23 from 14,865 tCO2e in FY22. But Dialog has formulated its sustainability goals.
- Safety (HSE). Nil Lost Time Injury (LTI) frequency in FY23 (FY22: 0.00).
• **Social**
- **Diversity.** 21% female representation in the management team (FY22: 19%).
- **>RM440m donations since inception of MyKasih** (set up by the founder).
• **Governance**
- Five out of nine board members are independent with diverse backgrounds, even though there is family representation in the management team.

SPEFICIATION OF LNG-ASU, RGTPSB

Capacity	Tonne Per Day, TPD
Liquid Nitrogen (N2)	460
Oxygen	140
Liquid Argon	12
Total	**612**

Source: Dialog, PGAS

COMPARISON: PLNG2 AND RGTPSB

	PLNG2	RGTPSB
Investment, RMb	2.7	<0.5
Stake, %	25	27.8
First operation	Nov 2017	Nov 2026
Earnings p.a, Dialog's share, RMm	**47-86m**	**5-10**

Source: Dialog

RGTPSB LOCATION NEXT TO PLNG2

Source: Dialog

SOTP VALUATION (FY25)

Segments	Valuation	RM
Diluted shares	*6.3b shares*	
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Core business	18x P/E on net profit, ex-associates (cut from 22x)	1.13
Kertih Terminal	400,000m³, 30% stake, WACC 9%	0.04
Tanjung Langsat 1 and 2	740,000 m³, 100% stake, WACC: 9%	0.26
Pengerang : Phase 1 and 2	Upgrades PITSB	1.22
D35 PSC + Bayan + POEC T	Assume O&G price of US$90-100/bbl, WACC of 12%	0.11
Expansion potential	PLNG2, Langsat, and Pengerang Phase 3	0.50
(-) Net debt	Including warrant proceed	(0.16)
SOTP		**3.00**
Implied P/E		26.9x

Source: UOB Kay Hian

PROFIT & LOSS

Year to 30 Jun (RMm)	2024	2025F	2026F	2027F
Net turnover	**3,152**	**2,840**	**2,884**	**2,998**
EBITDA	788	734	785	803
Deprec. & amort.	334	372	399	427
EBIT	455	363	386	376
Total other non-operating income	n.a.	n.a.	n.a.	n.a.
Associate contributions	310	395	399	477
Net interest income/(expense)	(65)	(56)	(67)	(75)
Pre-tax profit	**684**	**702**	**718**	**778**
Tax	(74)	(49)	(50)	(55)
Minorities	(30)	(43)	(28)	(39)
Net profit	**580**	**610**	**640**	**685**
Net profit (adj.)	595	610	640	685

BALANCE SHEET

Year to 30 Jun (RMm)	2024	2025F	2026F	2027F
Fixed assets	2,794	2,877	3,089	3,302
Other LT assets	3,840	4,430	4,491	4,535
Cash/ST investment	1,573	1,721.6	2,012.1	2,400.8
Other current assets	923	878	890	923
Total assets	**9,130**	**9,850**	**10,412**	**11,075**
ST debt	128	654	733	819
Other current liabilities	896	996	1,006	1,073
LT debt	1,575	1,465	1,642	1,834
Other LT liabilities	24	24	24	24
Shareholders' equity	5,944	**6,274**	**6,619**	**6,989**
Minority interest	563	527	491	455
Total liabilities & equity	**9,130**	**9,850**	**10,412**	**11,075**

CASH FLOW

Year to 30 Jun (RMm)	2024	2025F	2026F	2027F
Operating	**1,187**	**1,636**	**1,352**	**1,478**
Pre-tax profit	679	702	718	778
Tax	(82)	(49)	(50)	(55)
Deprec. & amort.	334	372	399	427
Working capital changes	(28)	369	(1)	34
Other operating cashflows	285	276	287	295
Investing	**(551)**	**(800)**	**(800)**	**(800)**
Capex (growth)	(159)	(500)	(250)	(250)
Investments	(419)	(300)	(300)	(300)
Others	27	0	(250)	(250)
Financing	**(789)**	**(686)**	**(261)**	**(290)**
Proceeds from borrowings	(484)	(500)	250	250
Loan repayment	(64)	(56)	(67)	(75)
Others/interest paid	(241)	(131)	(444)	(465)
Net cash inflow (outflow)	**(153)**	**150**	**291**	**389**
Beginning cash & cash equivalent	**1,720**	**1,573**	**1,721.6**	**2,012.1**
Changes due to forex impact	5	0	0	0
Ending cash & cash equivalent	**1,573**	**1,721.6**	**2,012.1**	**2,400.8**

KEY METRICS

Year to 30 Jun (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	25.0	25.9	27.2	26.8
Pre-tax margin	21.7	24.7	24.9	26.0
Net margin	18.4	21.5	22.2	22.9
ROA	8.7	9.4	9.4	9.7
ROE	13.9	14.0	14.2	14.6
Growth				
Turnover	5.0	(3.5)	1.4	3.7
EBITDA	55.7	2.4	6.4	2.2
Pre-tax profit	23.5	13.3	2.1	7.7
Net profit	13.6	17.0	4.5	6.5
Net profit (adj.)	19.2	13.9	4.5	6.5
EPS	19.2	13.9	4.5	6.5
Leverage				
Debt to total capital	20.7	31.2	33.2	35.2
Debt to equity	28.6	33.8	35.7	37.5
Net debt/(cash) to equity	2.2	6.3	5.3	3.2
Interest cover (x)	12.2	13.2	11.7	10.7

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